

Mr. Anthony V. Marshall, Vice President Reimbursement
Diversified Health Services, L.P.
3839 Forest Hill-Irene
Memphis, Tennessee 38215

Re: AC# 3-RNC-J4- Roper Nursing Center

Dear Mr. Marshall:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period January 1, 1994 through September 30, 1994. That report was used to set the rate covering the contract periods beginning October 1, 1995.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

By request of the state medicaid agency this letter also serves as an official notice of your requirement to respond with a report of planned corrective actions on the recommendations and deficiencies noted in this report within forty-five (45) days of the date of this letter. Your response should reference the audit control number and be addressed to: Division of Home Health and Nursing Facility Services, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina, 29202-8206. You are also required to simultaneously furnish a copy of your corrective action report to the State Auditor's Office.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/tdc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Mac Carroll
Ms. Beverly Hoffman

**ROPER NURSING CENTER
CHARLESTON, SOUTH CAROLINA**

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1995
AC# 3-RNC-J4**

**REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

November 21, 1997

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Roper Nursing Center, for the contract periods beginning October 1, 1995 and for the nine month cost report period ended September 30, 1994, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Roper Nursing Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis and the Comments and Recommendations sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Roper Nursing Center dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
November 21, 1997

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the South Carolina Department of Health and Human Services and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Thomas L. Wagner, Jr., CPA
State Auditor

ROPER NURSING CENTER
Computation of Rate Change
For the Contract Periods
Beginning October 1, 1995
AC# 3-RNC-J4

	10/01/95- <u>03/31/96</u>	04/01/96- <u>09/30/96</u>
Interim reimbursement rate (1)	\$83.81	\$80.76
Adjusted reimbursement rate	<u>81.36</u>	<u>78.31</u>
Decrease in reimbursement rate	\$ <u><u>2.45</u></u>	\$ <u><u>2.45</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated May 15, 1997

ROPER NURSING CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1995 Through March 31, 1996
AC# 3-RNC-J4

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$ -	\$42.18	\$41.13	\$41.13
Dietary	<u>.60</u>	<u>6.42</u>	<u>8.53</u>	<u>6.42</u>
Subtotal	\$ <u>.60</u>	48.60	49.66	47.55
Laundry/Housekeeping/Maint.	\$1.08	4.84	7.17	4.84
Administration & Med. Rec.	<u>-</u>	<u>16.13</u>	<u>7.86</u>	<u>7.86</u>
Subtotal	\$ <u>1.08</u>	69.57	\$ <u>64.69</u>	60.25
<u>Costs Not Subject to Standards:</u>				
Utilities		2.46		2.46
Special Services		.73		.73
Medical Supplies & Oxy.		3.30		3.30
Taxes and Insurance		.42		.42
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$76.48</u>		67.16
Inflation Factor (6.30%)				4.23
Cost of Capital				8.47
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				1.08
Cost Incentive - For Gen. Serv. & Dietary				.60
Effect of \$1.50 Cap on Cost/Profit Incentives and Cost Sharing				<u>(.18)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$81.36</u>

ROPER NURSING CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period April 1, 1996 Through September 30, 1996
AC# 3-RNC-J4

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$ -	\$42.18	\$38.26	\$38.26
Dietary	<u>.60</u>	<u>6.42</u>	<u>8.53</u>	<u>6.42</u>
Subtotal	\$ <u>.60</u>	48.60	46.79	44.68
Laundry/Housekeeping/Maintenance	\$1.08	4.84	7.17	4.84
Administration & Medical Records	<u>-</u>	<u>16.13</u>	<u>7.86</u>	<u>7.86</u>
Subtotal	\$ <u>1.08</u>	69.57	\$ <u>61.82</u>	57.38
<u>Costs Not Subject to Standards:</u>				
Utilities		2.46		2.46
Special Services		.73		.73
Medical Supplies & Oxygen		3.30		3.30
Taxes and Insurance		.42		.42
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$76.48</u>		64.29
Inflation Factor (6.30%)				4.05
Cost of Capital				8.47
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				1.08
Cost Incentive - For General Service & Dietary				.60
Effect of \$1.50 Cap on Cost/Profit Incentives and Cost Sharing				<u>(.18)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$78.31</u>

ROPER NURSING CENTER
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 1994
 AC# 3-RNC-J4

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,474,291	\$ -	\$ -	\$1,474,291
Dietary	224,554	-	-	224,554
Laundry	40,854	-	-	40,854
Housekeeping	73,866	-	-	73,866
Maintenance	54,604	-	-	54,604
Administration & Medical Records	543,143	20,534(4)	-	563,677
Utilities	85,918	-	-	85,918
Special Services	19,271	6,312(3)	-	25,583
Medical Supplies & Oxygen	117,768	-	2,378(2)	115,390
Taxes & Insurance	14,647	-	-	14,647
Legal Fees	-	-	-	-
Cost of Capital	385,969	45(1) 1,318(1) 6,071(5) 10,771(7) <u>177(7)</u>	8,925(1) 20,534(4) 3,960(6) 74,972(8) <u></u>	295,960
Subtotal	3,034,885	45,228	110,769	2,969,344
Ancillary	306,718	-	-	306,718
Non-Allowable	1,496,594	3,960(6) <u>74,972(8)</u>	6,312(3) <u>6,071(5)</u>	1,563,143
Total Operating Expenses	<u>\$4,838,197</u>	<u>\$124,160</u>	<u>\$123,152</u>	<u>\$4,839,205</u>
TOTAL PATIENT DAYS	* <u>34,955</u>	<u>-</u>	<u>-</u>	<u>34,955</u>

* Adjusted to 97% occupancy

TOTAL BEDS 132

ROPER NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 1994
AC# 3-RNC-J4

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Land Improvements	\$ 9,507	
	Building	70,305	
	Equipment	26,500	
	Depreciation Expense - Land Improvements	45	
	Depreciation Expense - Building	1,318	
	Depreciation Expense - Equipment		\$ 8,925
	Accumulated Depreciation - Land Improvements		10,483
	Accumulated Depreciation - Building		49,553
	Accumulated Depreciation - Equipment		19,170
	Equity		19,544
	To adjust fixed assets to historical cost State Plan, Attachment 4.19D		
2	Other Equity	2,378	
	Medical Supplies and Oxygen		2,378
	To remove expense applicable to the prior period HIM-15-1, Section 2302.1		
3	Special Services - Physical Therapy Nonallowable	6,312	6,312
	To adjust Medicare Part B Co-Insurance to actual State Plan, Attachment 4.19D		
4	Administration	20,534	
	Cost of Capital - Amortization		20,534
	Organization Costs		
	To reclassify start-up costs to administration HIM-15-1, Section 2300		
5	Cost of Capital - Amortization Expense Nonallowable	6,071	6,071
	To adjust amortization expense to allowable State Plan, Attachment 4.19D		

ROPER NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 1994
AC# 3-RNC-J4

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable	3,960	
	Cost of Capital - Amortization		
	Expense - Loan Costs		3,960
	To properly state interest expense		
	State Plan, Attachment 4.19D		
7	Cost of Capital - Income Offset	10,771	
	Depreciation Expense	177	
	Other Equity		10,948
	To adjust accumulated depreciation,		
	depreciation expense and income offset		
	to allowable		
	State Plan, Attachment 4.19D		
8	Nonallowable	74,972	
	Cost of Capital		74,972
	To adjust cost of capital to allowable		
	State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$232,850</u>	<u>\$232,850</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

ROPER NURSING CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1994
AC# 3-RNC-J4

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>1.9778</u>
Deemed Asset Value (Per Bed)	30,889
Number of Beds	<u>132</u>
Deemed Asset Value	4,077,348
Improvements Since 1981	13,288
Accumulated Depreciation at 9/30/94	<u>(274,579)</u>
Deemed Depreciated Value	3,816,057
Market Rate of Return	<u>.072</u>
Total Annual Return	<u>274,756</u>
Adjust For Cost Report Period 273/365	205,502
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	205,502
Depreciation Expense	109,160
Amortization Expense	10,432
Capital Related Income Offsets	(29,134)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	295,960
Total Patient Days (Minimum 97% Occupancy)	<u>34,955</u>
Cost of Capital Per Diem	\$ <u><u>8.47</u></u>

ROPER NURSING CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1994
AC# 3-RNC-J4

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ N/A
Adjustment for Maximum Increase	<u>N/A</u>
Maximum Cost of Capital Per Diem	\$ <u>-</u>
Reimbursable Cost of Capital Per Diem	\$8.47
Cost of Capital Per Diem	<u>8.47</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

COMMENTS AND RECOMMENDATIONS

Our agreed-upon procedures identified a certain condition that we have determined to be subject to correction or improvement. We believe this condition should be brought to your attention.

Part B Settlement

The Part B settlement computation as submitted by the provider was not correct as required by the South Carolina Department of Health and Human Services. As a result, the Medicare Part B settlement was understated by \$1,627. We recommend the South Carolina Department of Health and Human Services initiate action to correct the settlement.